



# **Property Tax Reform Proposal**

**Presented by the  
Iowa League of Cities  
and the  
Iowa State Association of Counties**

**Property Taxation Review Committee  
November 10, 2004**



# Property Tax Reform

**Why**

**?**

**Provides  
Accountability,  
Limits and  
Consistency**

**Creates a 21st  
Century Tax  
System for a  
21st Century  
Economy**

**Allows for Better  
Community  
Planning and  
Service Delivery  
to Taxpayers**

# Consistency for All Parties

Our Proposal Creates

**No Windfall**

**Revenue Constraints**

**Assurance of Revenue Consistency**

**Consistent  
Revenues**

**=**

**Better Service  
Delivery**

**Our Proposal Creates**

**Better  
Budgets**

**Better  
Planning**

**Better Services**

**21<sup>st</sup> Century  
Tax System**

**For a 21<sup>st</sup> Century  
Economy**

## **Our Proposal Provides**

**A more fair  
system to small  
businesses – the  
backbone of our  
economy**

**More  
balance  
across  
property  
classes**

**Modern tax  
system allows  
for first step to  
overall tax  
modernization**

# Proposal Highlights

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## **A**ssessment and Valuation

- Expand the tax base

## **B**udgeting and Taxation

- Accountability

## **C**onstraints and Limitations

- An inflationary property tax revenue limitation

# Assessment and Valuation

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- Assessment Limits (Rollback)
- Agricultural Buildings & the Productivity Formula
- Exempt Properties
- Manufactured Housing
- Platted Lands
- Assessment Procedures



# Assessment and Valuation

- **The Rollback**
  - No more assessment limits; no more rollback
  - Agricultural and residential values uncoupled
  - 50% homeowner's exemption on owner-occupied residences
    - Floor of \$10,000; ceiling of \$150,000
  - Tax base increase on high-value homes, second homes, rental properties, investment properties

# Assessment and Valuation

- **Agricultural Property**
  - Agricultural buildings valued at 100% of market, in addition to productivity formula
    - \$2.5 billion valuation increase to ag land
  - Productivity formula expanded to cover 10 years of data, rather than 5
    - In 2003, state average would have been \$690 per acre, up from \$638
    - In 2001, state average would have been \$733 per acre, down from \$790
    - No significant long-term effect on valuation

# Assessment and Valuation

- **Exempt Properties**

- Government-owned properties remain exempt
- Private, fully exempt properties will have their land value become taxable to cities and counties only – not schools (default)
  - Rule of thumb is land accounts for 20% of total value; improvements account for the rest
  - \$6.76 billion exempt; \$1.35 would become taxable
  - Taxes due of \$23M in FY2004 (1.4% of taxes)
- Cities/counties may “opt out” and keep properties fully exempt, or impose a public safety fee

# Assessment and Valuation

- **Forest and Fruit Tree Reserve Exemption**
  - Capped at \$1,000 per acre
    - 95% of land (acres) in forest reserve is agricultural, and not affected at all or to a great extent by cap -statewide data
    - 58% of land (value) could be affected by the cap-sample data
    - Maintain conservation; reduce tax avoidance
- **Property Tax Exemptions**
  - All exemptions sunset every four years, and must be re-enacted to remain in place

# Assessment and Valuation

- **Manufactured Housing**
  - Occupied lot surcharge replaces \$0.20/sq.ft. tax on homes inside of MH communities
    - Surcharge equal to 5% of taxable valuation (not taxes due) if occupancy is 100%
    - Designed to approximate current taxes owed
    - Payable by landowner, not homeowner
  - Buildings on leased land
    - All taxes payable by landowner
    - Includes manufactured homes outside of communities

# Assessment and Valuation

- **Platted Lands**

- Assessment freeze extended from 3 to 6 years, with a firm limit
- Land must meet standards for “good faith” use as agricultural property for ag classification to remain in place
- If not, classification is changed to reflect intended development, and value goes to 100% of market

# Assessment and Valuation

- **Assessment Procedures**
  - Informal assessment reviews
  - Sharing assessors
  - Prospective equalization
    - Implications on school aid formula
  - Multi-classification on individual properties
  - Central assessment of cable TV and cellular towers

# Budgeting and Taxation

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- New Publication Form
- Property Tax Credits
- Fund Balance Limitation
- Unfunded Mandate Protection
- Budget Appeals



# Budgeting and Taxation

- **Budget Publication Form**
  - Available on pages 15 and 17 of proposal book
  - Highlight local decisions
  - Transparency of tax rate
  - Effect on sample taxpayers
  - Major changes in the budget from previous year

# Budgeting and Taxation

- **Property Tax Credits**
  - Homestead is eliminated
    - State savings of \$102 million
  - Ag land rolled into family farm; direct payment
  - Low-income (elderly and disabled) changed to a direct payment from state to taxpayer
  - Military exemption becomes refundable income tax credit

# Budgeting and Taxation

- **Fund Balance Limits**
  - Each city/county will formally adopt a resolution establishing its own fund balance limitation

# Budgeting and Taxation

- **Unfunded Mandate Protection**
  - Strengthen language in 25B.2
  - Still subject to a “notwithstanding”
- **Budget Appeals**
  - A hearing before the state appeal board may only include issues raised in budget protest petition

# Constraints and Limitations

- **Property Tax Revenue Limitation**
  - County general basic and rural basic funds; city general fund
  - Base year limit, plus inflation and new valuation
  - Unlimited carryover of unused tax authority
  - Limit can be exceeded via certain procedures
  - Citizens can have voice via extra public hearing and reverse referendum



# Constraints and Limitations

- **Applies to City General Fund and County General Basic and Rural Basic Funds**
- **Base Year Calculation**
  - Either FY 2006 or FY 2007 – neither have happened yet
  - Base limit is greater of actual taxes levied or potential tax capacity in base year
    - No penalty for being under current limit

# Constraints and Limitations

- **Inflationary Index – GPI**
  - 10-year average of 2.6%; 5-year average of 3.2%
- **Net New Valuation**
  - New construction, additions or improvements, abatements expiring, released TIF increment, boundary changes
- **Unused Levy Capacity**
  - Carries over indefinitely; no limits
  - New maximum always based on prior maximum

# Constraints and Limitations

- **Exceeding the Limitation**
  - By up to 3% with additional public hearing
  - Anything over 3% is subject to reverse referendum upon petition of 10% of registered voters
  - Temporarily or permanently exceeding the limitation
- **Effective Date is Assessment Year 2006, FY 2007 - 2008 (begins July 1, 2007)**

## Summary

# Changes to Rollback and Property Tax Credits

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- Prevents the further shift of tax burden onto commercial properties
- The state is relieved from funding the homestead credit
- Homeowners receive a 50% exemption on their primary residence
- State directly administers other property tax credits

## Summary

# New Property Tax Revenue Limitation

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- Provides clarity to taxpayers and flexibility to meet citizens' needs
- Ability to carry forward unused levy capacity encourages conservative budgeting

## Summary

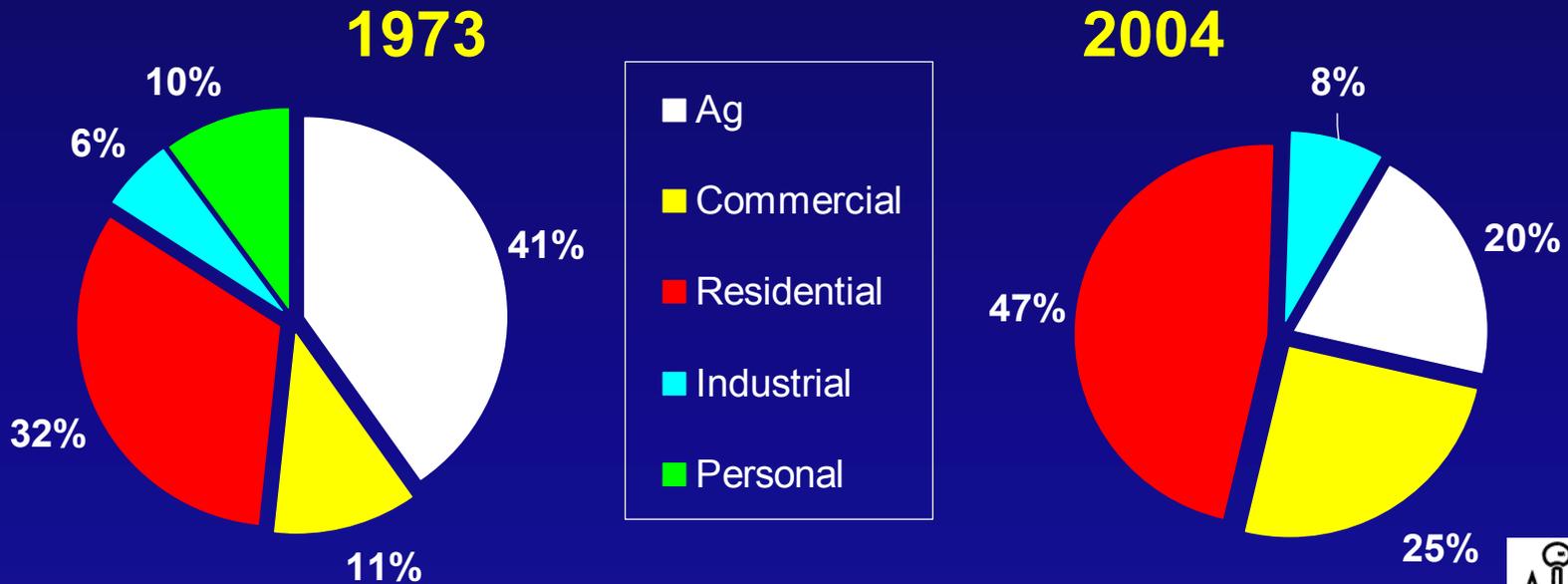
# More Equitable Distribution of Tax Burden

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- Ag Property
- Exempt Property
- Certain Residential Properties

# Property Tax in Iowa Since 1973

There has been a dramatic shift from agricultural and personal property onto residential and commercial property.



Industrial includes M & E, utilities and railroads for purposes of illustration.

## Summary

# More Clarity

- Improved Budget Process
- Prospective Equalization Orders
- State Accountability
- Assessment Improvements

## Fiscal Analysis

# Discussion

**For additional  
information contact:**

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